IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF OHIO
EASTERN DIVISION

DSW, INC. and DSW SHOE WAREHOUSE, INC.	:	
	:	Case No. 2:08-CV-455
Plaintiffs,	:	
v.	:	Judge Sargus
ZAPPOS.COM, INC. and COMMISSION JUNCTION, INC.,	:	Magistrate Abel
Defendants.	:	

DEFENDANT ZAPPOS.COM, INC.'S RENEWED MOTION TO DISMISS

Defendant Zappos.com, Inc. hereby renews its motion to dismiss this civil action under Federal Rule of Civil Procedure 12(b)(6). In the alternative, Zappos.com, Inc. renews its motion for an order of joinder of Nabeel Khalid as a required party under Rules 12(b)(7) and 19, or for dismissal if he cannot be joined. The reasons for this Motion are explained in the attached Memorandum in Support.

Respectfully submitted,

/s/ Kristopher J. Armstrong

Kristopher J. Armstrong, Trial Attorney
(0077799)
BAKER & HOSTETLER LLP
65 East State Street, Suite 2100
Columbus, Ohio 43215
Telephone: (614) 228-1541
Facsimile: (614) 462-2616
Email: karmstrong@bakerlaw.com

Attorneys for Defendant Zappos.com, Inc.

Of Counsel:
Deborah A. Wilcox (0038770)
3200 National City Center
1900 E. 9th Street
Cleveland, Ohio 44114
216-621-0200 (Telephone)
216-696-0740 (Facsimile)
dwilcox@bakerlaw.com

MEMORANDUM IN SUPPORT

I. INTRODUCTION

Despite the language added in the First Amended Complaint and Jury Demand ("Amended Complaint") of Plaintiffs DSW, Inc. and DSW Shoe Warehouse, Inc. (collectively "DSW"), DSW still does not state a claim for trademark infringement—whether direct, vicarious, or contributory—against Defendant Zappos.com, Inc. ("Zappos"). The Amended Complaint is, like the original Complaint, nothing more than the bare recitation of legal elements of DSW's claims. This Court has already determined that such bald recitations are insufficient to state a claim.

Crucially, the affiliate marketing arrangement by which DSW seeks to hold Zappos contributorily liable does not, as a matter of law, rise to an actionable claim. The Amended Complaint does not state facts to show the required instrumentality supplied, controlled, and monitored by the advertiser, in this case Zappos. As set forth below, Zappos' motion to dismiss should be granted.

II. PROCEDURAL BACKGROUND

Zappos' Motion to Dismiss, filed on July 7, 2008, requested that the Court dismiss DSW's claims on the ground that DSW failed to state a claim upon which relief can be granted. Zappos' Motion also sought an order from the Court joining Nabeel Khalid as a required party or that the action be dismissed if joinder is unfeasible. DSW filed papers in opposition to Zappos' Motion, requesting that it be denied or that DSW be granted leave to amend its complaint. Zappos filed a reply in support of its Motion.

The Court's Opinion and Order of October 24, 2008, stated that DSW failed to state a claim against Zappos but granted DSW leave to amend its complaint to include additional facts sufficient to state a claim. Specifically, the Court required DSW "to add whatever concrete facts

Plaintiffs have a good faith basis for asserting in support of their claims against Zappos." (Op. & Order 4-5, Oct. 24, 2008.) Zappos' Motion to Dismiss was denied without prejudice, and the Court indicated that if DSW were able to state a properly supported claim for infringement, Zappos' motion for an order of joinder would be evaluated at that time.[1]

DSW's Amended Complaint adds language alleging that Zappos (1) knew or should have known about certain websites alleged to have infringed DSW's marks (the "Allegedly Infringing Sites") (Am. Compl. ¶¶ 18-20); (2) provided to the Allegedly Infringing Sites' operator(s) (the "Affiliate") "software and/or information necessary" to link the Allegedly Infringing Sites to the websites of Defendant Commission Junction, Inc. ("CJ") and Zappos (Am. Compl. ¶ 21); and (3) monitored, directed, and controlled, or had the ability to monitor, direct, and control, use of DSW's marks on the Allegedly Infringing Sites and links on those sites to the sites of Zappos and CJ (Am. Compl. ¶ 22).

III. LAW AND ARGUMENT[2]

Given that the Court has determined that DSW's original complaint did not state a claim against Zappos (Op. & Order 4), Zappos' argument is focused solely on the new language in DSW's Amended Complaint. As explained in more detail below, the additional language added by DSW does nothing to remedy the deficiencies in DSW's complaint under the theories of direct trademark infringement or vicarious trademark infringement. DSW's failure to provide allegations in support of these theories is fatal to them. Not even a strained reading of DSW's new allegations can save these theories because DSW fails to meet the standard set forth in *Bell Atlantic Corp. v. Twombly*, 127 S. Ct. 1955 (2007).

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[1] Should the Court decline to dismiss the case under Fed. R. Civ. P. 12(b)(6), Zappos hereby requests an order of joinder of Nabeel Khalid as a required party under Rules 12(b)(7) and 19 or dismissal of the case if he cannot be joined.

[2] DSW acknowledges that the same analysis applies to its claims under 15 U.S.C. §§ 1114 and 1125(a) and O.R.C. § 4165.01 *et seq*. (Pls' Opp'n Def. Zappos' Mot. Dismiss 4.) Accordingly, the argument herein applies to all of DSW's claims.

Although DSW's new language is apparently directed toward stating a claim for contributory trademark infringement, it falls far short of the requisite standard. Again, DSW's bare recitation of legal elements fails the *Twombly* test. Moreover, even if some of DSW's statements are found to constitute factual allegations as opposed to legal conclusions, they cannot, as a matter of law, support what would be the critical element of DSW's claim for contributory trademark infringement: that Zappos supplied, monitored, and controlled an instrumentality that was used to infringe DSW's marks. Accordingly, DSW's Amended Complaint must be dismissed.

A. DSW Fails to State a Claim for Direct Trademark Infringement by Zappos.

Like the original complaint, DSW's Amended Complaint does not allege that Zappos directly infringed the DSW marks. For a party to directly infringe another's trademark, that party must have used the mark in commerce. *See* 15 U.S.C. §§1114, 1125; O.R.C. § 4165.02. Nowhere in the Amended Complaint does DSW state that Zappos used DSW's marks in commerce. Rather, DSW alleges that "Zappos monitored, directed and controlled, or had the ability to monitor, direct and control, the use of the DSW Marks" on the Allegedly Infringing Sites. (Am. Compl. ¶ 22.) The plain meaning of this language is that Zappos did not itself use DSW's marks.

If DSW wished to allege that Zappos used DSW's marks on the sites, it could have said so, rather than stating that use of the marks was directed and controlled by Zappos. Even if this language could be stretched to mean that Zappos itself used DSW's marks on the Allegedly Infringing Sites, it is insufficient to withstand Zappos' motion to dismiss under *Twombly*. *See* 127 S. Ct. at 1964-65 ("[F]ormulaic recitation of the elements of a cause of action will not do."); *see also Fare Deals Ltd. v. World Choice Travel.com, Inc.*, 180 F. Supp. 2d 678, 682 (D. Md. 2001) ("The court . . . is 'not bound to accept as true a legal conclusion couched as a factual allegation.'" (quoting *Papasan v. Allain*, 478 U.S. 265, 286 (1986))). The Amended Complaint fails to state a claim against Zappos for direct trademark infringement.

B. DSW Fails to State a Claim for Vicarious Trademark Infringement by Zappos.

It does not appear that DSW is attempting to state a claim for vicarious trademark infringement, but, if it were, it has not added language in the Amended Complaint sufficient to survive a motion to dismiss. As set forth more fully in Zappos' original Memorandum in Support of Dismissal and the *Fare Deals* case, a claim for vicarious trademark infringement relies on an agency relationship existing between the direct infringer and the party sought to be held liable. (Mem. Supp. Def. Zappos' Mot. Dismiss 7-9.) Although DSW added a conclusory statement in Paragraph 22 of the Amended Complaint that Zappos directed and controlled certain actions of the Affiliate, DSW added nothing else to support a vicarious trademark infringement theory. This additional language merely recites one factor to be considered in determining whether an agency relationship is present, namely, "the principal's right to control the alleged agent." *Fare Deals Ltd.*, 180 F. Supp. 2d at 685. Because DSW fails to allege a factual basis for how Zappos exerted such direction and control, DSW fails the *Twombly* test. *See* 127 S. Ct. at 1964-65.

Moreover, other factors must be considered in finding an agency relationship, for instance, "the alleged agent's duty to act primarily for the benefit of the principal; and . . . the alleged agent's power to alter the legal relations of the principal." 180 F. Supp. 2d at 685. As Zappos has shown, DSW has not, and cannot in good faith, allege any facts regarding these factors. (*See* Mem. Supp. Def. Zappos' Mot. Dismiss 7-9; Def. Zappos' Reply Supp. Mot. Dismiss 6-7.) As in the *Fare Deals* case, DSW has failed to state a claim for vicarious trademark infringement:

> Absent a principal-agent relationship between HRN and the owners or operators of the <faredeals.com> web site, HRN cannot be vicariously liable for their tortious acts. The mere *ipse dixit* of Fare Deals that an agency relationship exists does not conjure one. Nor do the facts Fare Deals pleads suggest one.

180 F. Supp. 2d at 686 (citations omitted). Consequently, dismissal is warranted.

C. <u>DSW Fails to State a Claim for Contributory Trademark Infringement by Zappos</u>.

The new language in DSW's Amended Complaint, apparently directed toward stating a claim against Zappos for contributory trademark infringement, fails for two reasons: (1) DSW's statements do no more than recite the bare legal elements of the claim, and (2) even assuming for argument's sake that certain statements could pass muster under *Twombly*, the facts that DSW alleges are insufficient as a matter of law to support the conclusion that Zappos supplied, controlled, and monitored an instrumentality that was used to infringe DSW's marks.

As set forth more fully in Zappos' Reply in Support of its Motion to Dismiss, to state a claim for contributory infringement, DSW needs to allege facts that support either (1) that Zappos intentionally induced another's infringement or (2) that Zappos continued to supply a product to one who used it to infringe another's trademark when Zappos knew or had reason to know about the infringement. (See Def. Zappos' Reply Supp. Mot. Dismiss 3-6.)

None of DSW's amended language is directed toward showing that Zappos intentionally induced the Affiliate to infringe DSW's marks. The new language involves only Zappos' alleged knowledge of infringement, its alleged provision of "software and/or information" in connection with links on the Allegedly Infringing Sites, and its alleged control over use of DSW's marks on the Allegedly Infringing Sites and links thereon. Nowhere does DSW allege facts that would support Zappos' intentional inducement of the Affiliate's alleged infringement.

The new language appears instead directed toward alleging a claim for the second type of contributory trademark infringement. The U.S. Supreme Court's formulation of this theory in

Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844 (1982), contemplated a much different situation than the facts in the present case. In *Inwood Laboratories,* the defendant had continued to supply a third party with a product **after the defendant knew the third party was mislabeling the product with the plaintiff's trademark**. *See Fare Deals Ltd.*, 180 F. Supp. 2d at 687-88. While courts applying the *Inwood Laboratories* decision broadened the theory to apply beyond knowing provision of physical goods that are being mislabeled, the theory still is inapposite here. In *Lockheed Martin,* the court reasoned that "direct control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark permits the expansion of *Inwood Lab.*'s 'supplies a product' requirement for contributory infringement." *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999).

DSW's attempt to track these elements in the new language of the Amended Complaint fails here. This Court has already admonished DSW regarding the bare recitation of the legal elements of a claim: "Plaintiff correctly contends that its complaint sets out the elements of its claims. The Court finds that such bare pleading is not sufficient under the standard set out in *Twombly*." (Op. & Order 3-4.) DSW states that Zappos knew or should have known about the Allegedly Infringing Sites (Am. Compl. ¶¶ 18-20) and that Zappos monitored, directed, and controlled—or had the ability to monitor, direct, and control—use of DSW's marks on the Allegedly Infringing Sites and the links to CJ's and Zappos' sites thereon (Am. Compl. ¶ 22). DSW's Amended Complaint still fails to allege facts that would support these conclusions.

Because DSW fails to advance specific facts to show that Zappos had any notice, actual or constructive, of possible infringement, Zappos cannot be liable for contributory trademark infringement. *Fare Deals Ltd.*, 180 F. Supp. 2d at 690. DSW's allegations are completely silent as to the nature and source of Zappos' alleged knowledge or control of the Allegedly Infringing

Sites. Once again, DSW has stated legal conclusions without providing factual allegations in support thereof.

DSW's final new allegation also fails to state a claim. DSW states that Zappos provided to the Affiliate "software and/or information necessary to create the links from" the Allegedly Infringing Sites to CJ's and Zappos' sites when Zappos knew or should have known that the Allegedly Infringing Sites "used those links to misdirect consumers." (Am. Compl. ¶ 21.) Even if this language is found to constitute more than a legal conclusion, it is insufficient to state a claim for contributory trademark infringement as a matter of law.

As noted in Zappos' prior briefs in support of its Motion to Dismiss, the *Fair Deals* court flatly rejected the same theory of contributory trademark infringement that DSW attempts to allege here. In that case, the plaintiff alleged that it had exclusive rights in the mark FARE DEALS for travel services, which were infringed by a website at the domain name <fairdeals.com>. *See* 180 F. Supp. 2d at 680-81. Via an affiliate marketing arrangement, the <fairdeals.com> website provided links to the websites of advertisers HRN and Hotwire, where customers could book hotel rooms and make airline reservations. The *Fair Deals* opinion is instructive in explaining how an affiliate marketing program works, and why the advertiser was not held responsible for the actions of the affiliate publisher. First, the court reviewed how the program worked:

> Both HRN and Hotwire market the travel services that they sell on their web sites **by making advertisements, in the form of banner ads or links, available to owners of independent internet web sites, who may post them on their own sites after accepting the terms of HRN's or Hotwire's affiliate agreements**. Under both HRN's and Hotwire's agreements, participating affiliates are paid a commission every time customers at affiliate web sites follow the posted links from the affiliate sites to HRN's or Hotwire's site and complete a purchase transaction with HRN or Hotwire. In order both to enable affiliates to create the links and to track sales originating from individual affiliates, HRN and Hotwire provide each of their affiliates with a unique universal resource locater

> ("URL"). By reviewing usage of the unique URLs, HRN and Hotwire can then calculate the commissions due each affiliate.

180 F. Supp. 2d at 681 (emphasis added).

Second, the court found that the plaintiff's allegations with respect to these advertisers did not support liability for contributory trademark infringement as a matter of law. This is because the affiliate marketing arrangement was not an instrumentality provided, controlled, and monitored by the advertiser:

> . . . HRN neither provided a product to the owners or operators of the <faredeals.com> web site nor directly controlled and monitored the site in a manner sufficient to justify expansion of the "supplies a product" requirement to include HRN's activity. HRN had no authority to control the operations of the <faredeals.com> web site. HRN licensed no real estate; it merely licensed its own mark to the alleged direct infringer. However, **a licensor of a mark does not ordinarily have a duty to prevent a licensee's misuse of another party's mark**.

180 F. Supp. 2d at 689-90 (emphasis added). Unlike the flea-market operators that some cases have found can be liable for contributory infringement, the advertiser did not have a duty to ensure that the affiliate publisher avoided all acts of trademark infringement:

> Moreover, liability in the flea-market cases rested on more than the relatively passive degree of control and monitoring usually exercised by a landlord. The flea-market operators not only exercised considerable actual control over the operations of their vendors; they also actively supported the infringing businesses of their vendors—by advertising and promoting the flea markets and by providing the vendors their customers. HRN, however, has provided no such support: it neither steered customers toward <faredeals.com> nor advertised the <faredeals.com> site. Even assuming that a valid affiliate agreement had been executed, **the nature of the license would contemplate internet traffic flowing *from* <faredeals.com> *toward* HRN—not the other way around**. Further, the flea-market operators were providing the very medium through which the infringing vendors conducted their businesses. If the flea-market operators had stopped providing the vendors space, the vendors would have been forced to shut down completely. HRN, on the other hand, seems less like the flea-market operators and more like the temporary help service imagined by the *Hard Rock Cafe* court: just as infringing vendors could get workers anywhere to erect their booths, so **the owners and operators of the <faredeals.com> web site could link to any number of internet travel-service providers**. If HRN severed its link to <faredeals.com>, the infringement could readily continue.

Id. (emphases added) (citations omitted).

Here, DSW alleges the same basis for contributory liability between Zappos and the Affiliate as the failed theory that Fare Deals Ltd. alleged between HRN and the operator of the <fairdeals.com> site. First, DSW alleges that the Affiliate operated websites that contained affiliate links to Zappos' site under domain names that incorporated DSW's marks. (Am. Compl. ¶ 18.) Second, DSW alleges that the websites infringed DSW's marks by causing a likelihood of confusion with respect to the websites' creation, sponsorship, or authorization by DSW. (Am. Compl. ¶¶ 19-20.) Third, DSW alleges that Zappos provided the links to its own site for the Affiliate to use on its infringing sites. (Am. Compl. ¶ 21.)

The reasoning of the *Fair Deals* court applies with equal force to the present case and supports dismissal of DSW's claims. In licensing the Affiliate to use its mark, Zappos does not assume a duty to prevent the Affiliate's misuse of the rest of the world's marks. In licensing the Affiliate, Zappos does not support the Allegedly Infringing Sites by driving traffic to them; rather, traffic is driven from the Allegedly Infringing Sites to Zappos. In licensing the Affiliate, the links the Affiliate creates to Zappos' site are not integral to the Affiliate's alleged infringement; the Affiliate could continue to cause a likelihood of confusion without linking to Zappos' site by substituting links to another shoe retailer's website. As the *Fare Deals* case teaches, DSW's allegations do not state a claim for contributory trademark infringement as a matter of law.

In another similar case, *Perfect 10, Inc. v. Visa International Service Ass'n*, 494 F.3d 788, 807 (9th Cir. 2007), the Ninth Circuit affirmed the district court's dismissal under Fed. R. Civ. P. 12(b)(6) of a website operator's claim for contributory trademark infringement against credit card services that allegedly funded an infringing site:

> . . . Perfect 10 has failed to allege facts sufficient to show "[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark." Perfect 10 claims that the "product" or "instrumentality" at issue here is the credit card payment network through which Defendants process payments for infringing material. . . . **[T]his network is not the instrument used to infringe Perfect 10's trademarks; that infringement occurs without any involvement of Defendants and their payment systems.** Perfect 10 has not alleged that Defendants have the power to remove infringing material from these websites or directly stop their distribution over the Internet. At most, Perfect 10 alleges that Defendants can choose to stop processing payments to these websites, and that this refusal might have the practical effect of stopping or reducing the infringing activity. This, without more, does not constitute "direct control."

(emphasis added) (citations omitted). In the present case, DSW's conclusory statement that Zappos directs and controls use of DSW's marks on the Allegedly Infringing Sites (Am. Compl. ¶ 22) is similarly attenuated. This bald statement, like all others added to the Amended Complaint, fails to provide a factual basis for holding Zappos liable for contributory trademark infringement.

IV. CONCLUSION

For the reasons set forth herein, Zappos requests that the Court dismiss DSW's Amended Complaint as to Zappos. Alternatively, Zappos requests that Nabeel Khalid be joined as a party to this action—or if joinder is unfeasible, that this case be dismissed—for the reasons set forth in Zappos' original and reply briefs in support of this Motion.

Respectfully submitted,

/s/ Kristopher J. Armstrong
Kristopher J. Armstrong, Trial Attorney
(0077799)
BAKER & HOSTETLER LLP
65 East State Street, Suite 2100
Columbus, Ohio 43215
Telephone: (614) 228-1541
Facsimile: (614) 462-2616
Email: karmstrong@bakerlaw.com

Attorneys for Defendant Zappos.com, Inc.

Of Counsel:
Deborah A. Wilcox (0038770)
3200 National City Center
1900 E. 9th Street
Cleveland, Ohio 44114
216-621-0200 (Telephone)
216-696-0740 (Facsimile)
dwilcox@bakerlaw.com

CERTIFICATE OF SERVICE

I certify that on November 26, 2008, the foregoing was electronically filed with the Clerk of the Court using the CM/ECF system, which will send notification of such filing to the following:

Theodore R. Remaklus
Wood, Herron & Evans, LLP
2700 Carew Tower
441 Vine Street
Cincinnati, Ohio 45202
tremaklus@whepatent.com

Attorneys for Plaintiffs

David J. Hudak
Lawrence A Sutter, III
Sutter O'Connell & Farcione
3600 Erieview Tower
1301 E. 9th Street
Cleveland, Ohio 44114-1831
dhudak@sutter-law.com
lsutter@sutter-law.com

Attorneys for Defendant Commission Junction

S. Ashlie Beringer
Gibson, Dunn & Crutcher, LLP
1801 California Street, Suite 4200
Denver, Colorado 80202
aberinger@gibsondunn.com

Attorney for Defendant Commission Junction

/s/ Kristopher J. Armstrong____________